Week Ahead August 14th-18th: Highlights include US retail sales, FOMC Minutes, RBA Minutes, PBoC MLF, RBNZ, China Activity Data, UK Jobs & Inflation

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- **MON:** N/A
- **TUE:** PBoC MLF, RBA Minutes, Japanese Prelim. GDP (Q2), Australian Wage Price Index (Q2), Chinese Industrial Output and Retail Sales (Jul), Japanese Industrial Output (Jul), UK Jobs Report (Jun/Jul), German ZEW Survey (Aug), US Retail Sales (Jul), Canadian CPI (Jul)
- **WED:** RBNZ Announcement, FOMC Minutes, UK Inflation (Jul), EZ GDP and Employment 2nd (Q2)
- **THU:** Norges Bank Announcement, Australian Jobs Report (Jul), EZ Trade Balance (Jun), US Philly Fed (Aug)
- **FRI:** Japanese CPI (Jul), UK Retail Sales (Jul), EZ Final CPI (Jul)

NOTE: Previews are listed in day order

PBOC MLF (TUE): PBoC is likely to keep its 1-year MLF rate unchanged at 2.65% next week despite continued weak data releases from China and the numerous support pledges by the central bank and other agencies. Chinese authorities have recently been out in force vowing several measures to support the economy including the PBoC which stated that RRR cuts, open market operations, MLF and all structural policy tools need to be flexibly used to maintain reasonably ample liquidity in the banking system, while it will guide banks to effectively adjust mortgage interest rates and support banks to reasonably control the cost of liabilities. It also announced guidelines to support the development of private firms and said it will implement differentiated housing credit policies in a "precise manner" and will support the stable and healthy development of the real estate market. However, these have mostly been targeted measures and the PBoC has reiterated it is to implement prudent monetary policy, while it is not expected to lower rates for short-term funding or the medium lending facility so soon after having just cut them in June for the first time in 10 months. The bank will also likely want to refrain from cuts to avoid unwanted pressure on its currency although future action such as a RRR cut is expected during H2 given the continued weak economic releases from China which recently slipped into deflation and showed a wider-than-expected contraction in the nation’s exports and imports.

RBA MINUTES (TUE): RBA will release the minutes from the August 1st meeting next week where it kept rates unchanged at 4.10% vs mixed views heading into the meeting as a majority of economists had called for a 25bps hike but money markets were heavily pricing the likelihood of a pause. Nonetheless, the central bank's language provided little new as it reiterated that some further tightening of monetary policy may be required and that the Board remains resolute in its determination to return inflation to target and will do what is necessary to achieve that. Furthermore, it reaffirmed the Board’s priority is to return inflation to the target within a reasonable timeframe and it sees inflation will be back at the 2%-3% target range in late 2025, while it noted higher interest rates are working to establish a more sustainable balance between supply and demand in the economy and will continue to do so but reiterated that a significant source of uncertainty continues to be the outlook for household consumption.

JAPANESE PRELIM GDP (TUE): Japanese Prelim GDP is forecast to print at 0.8% Q/Q (vs 0.7% in Q1), with the Y/Y metric expected at 3.1% (prev. 2.7%). GDP CapEx is seen retreating to 0.4% in Q2 from 1.4% in Q1. Private consumption is expected to have fallen to 0.1% from 0.5% in the quarter, but External Demand is forecast to have expanded by 0.9% (Vs -0.3% in Q1). Analysts’ views at ING differ from the market and see a slightly slower Q/Q growth rate of 0.6%, citing a modest improvement in net exports alongside a solid recovery in service activity. The desk highlights that “we should expect exports to record a contraction in July, particularly due to base effects.”

CHINESE ACTIVITY DATA (TUE): Chinese July Retail Sales are forecast at 4.8% Y/Y (prev. 3.1%), whilst Industrial Production is expected at 4.5% Y/Y (prev. 4.4%), and Fixed Asset Investments are expected to remain at 3.8% Y/Y. The data will be closely eyed for any further signs of dampened domestic and foreign demand following the string of disappointing data from the world’s second-largest economy. To recap, China consumer prices fell at a rate of -0.3% Y/Y in July (exp. -0.4%, prev. 0.0%), slipping into deflation for the first time since February 2021. The data underscored weak domestic demand with the expected post-COVID rebound in consumer spending failing to materialise. Add to that, the Caixin PMIs released earlier in the month suggested the manufacturing sector is yet to gain traction. ING suggests “Data from China Railway show that there was a 14.2% increase in operating passenger trains compared to the same period in 2019. Flight numbers, on the other hand, experienced a slower recovery. They are currently running at about 48% relative to the same period in 2019, but this is still a 12% increase on a yearly and monthly basis. The rise in movement could provide a boost to consumption and strengthen retail sales. However, the effect is unlikely to spill over into industrial production, and we should continue to see weak growth here." Several analysts have suggested that the data further fuels calls for more government support measures, particularly given the weaker trade data earlier this week, and further tensions within the property sector. Some have touted possible rate and RRR cuts later this year.

UK JOBS REPORT (TUE): Expectations are for the unemployment rate to hold steady at 4%, whilst no consensus has currently been provided for the other metrics. The prior release saw the unemployment rate unexpectedly jump to 4.0% from 3.8% in the three—month period to May, whilst the HMRC payrolls change saw a contraction of 9k and wage growth advanced once again with headline earnings growth of 6.9% (prev. 6.5%) 3M/YY in May. For the upcoming release, Pantheon Macroeconomics is of the view that the data will likely show that growth in employment continued to slow in June, but wage growth has remained too strong for the MPC to end its rate-hiking cycle just yet. More specifically, the consultancy notes that it believes "the headline unemployment rate rose to 4.0% in June, from 3.9% in March, but was unchanged from May". On wages, it assumes "May's estimate of wages will be revised up by 0.17%, ensuring that the headline rate of wage growth in June picks up to 7.5%, most likely above the consensus". From a policy perspective, attention will be on the wages component and potential follow-through to inflation, which could see calls for further action in September heighten, albeit will be unlikely to be fully priced until the release of inflation metrics the following day.

US RETAIL SALES (TUE): Retail sales are expected to rise +0.4% M/M in July (prev. +0.2%). Bank of America's consumer checkpoint data for the month suggests that consumer spending had a summer bounce in July, with lower- and middle-income households looking particularly resilient. "July consumer spending returned to positive Y/Y territory, and Bank of America's internal card spending per household rose +0.1% Y/Y in July, compared to a -0.2% Y/Y in June, helped by July 4th holiday spending, promotions from online retailers and 'movie mania'" the bank said. However, it noted that different income groups are exhibiting different behaviours; lower- and middle-income households remain resilient, but higher-income households still appear to be under some pressure from slower wage growth and incrementally weaker labour markets, BofA said, "but this is probably manageable and BofA Global Research now sees a soft landing with no US recession." Meanwhile, BofA said that deposit buffers provided ballast to consumer spending and analysis around hypothetical forward-looking scenarios suggest that they will continue to do so for some time.

CANADIAN CPI (TUE): The rate of consumer price growth is expected to ease to 2.7% Y/Y in July (prev. 2.8% Y/Y in June). The June data showed inflation eased to 2.8% Y/Y, and analysts noted that when excluding mortgage interest costs, the data was consistent with the BoC's 2.0% target. That said, the BoC's core measures of inflation remain elevated (the three measures averaged 4.2% in June), though analysts think that weakness in retail sales over May and June suggests demand is easing, and give hope that core inflation will fall through the rest of 2023. Recent data also showed that the loosening is continuing in the labour market; Capital Economics noted that the decline in employment and rise in unemployment suggests that the unexpected jump in wage growth last month was unlikely to be sustained; "with the Bank of Canada implying that the data need to surprise to the upside to warrant another interest rate hike, the softer labour market data support our view that the Bank is unlikely to follow through with current market pricing by raising rates further," it said.

RBNZ ANNOUNCEMENT (WED): The RBNZ is likely to keep rates unchanged at next week's meeting with money markets pricing a 99% probability that the Official Cash Rate will be maintained at the current level of 5.50%. As a reminder, the RBNZ left the OCR unchanged at the prior meeting to snap a streak of 12 consecutive rate hikes which was widely expected given that the central bank had previously signalled that the hiking cycle was over, while the Committee agreed that the OCR will need to remain at a restrictive level for the foreseeable future and noted the level of interest rates is constraining spending and inflation pressure as anticipated and required. Furthermore, the RBNZ acknowledged inflation remains too high but is expected to decline within the target range by H2 2024. The rhetoric from the central bank has been very light since that meeting which only took place over 4 weeks ago, therefore, there hasn't been much to deviate from the current view of no more rate hikes and that the OCR will need to remain at a restrictive level for the foreseeable future. In addition, the data releases have been mixed and support the case for a pause with CPI firmer-than-expected for Q2 at 1.1% vs. Exp. 1.0% (Prev. 1.2%) and YY at 6.0% vs. Exp. 5.9% (Prev. 6.7%) but has slowed from the prior and labour cost index was also softer than estimated, while jobs growth topped forecasts at 1.0% vs. Exp. 0.5% (Prev. 0.8%) but the Unemployment Rate also rose to 3.6% vs. Exp. 3.5% (Prev. 3.4%).

FOMC MINUTES (WED): With the Fed in a data-dependent policy-setting mode, the FOMC meeting minutes from the July meeting are not expected to contain many surprises. However, traders will be looking for any commentary on how the Fed assesses growth dynamics; given that inflation is slowly inching back down towards target, many expect the Fed to pivot policy and eventually begin cutting rates to support the economy. Money markets currently price in the terminal rate between 5.25-5.50%, though the Fed's June projections have pencilled in a further hike; markets are also expecting rate cuts to start in Q1 2024. Meanwhile, at the July meeting, the Fed raised interest rates by +25bps to 5.25-5.50%, in line with expectations. The statement was similar to June's, mentioning the possibility of further rate increases. It acknowledged that the economy is growing at a "moderate" pace instead of a "modest" one, and emphasised that job gains are strong, and the unemployment rate is low. Regarding inflation, the Fed remains cautious and watchful, not overreacting to a single data point. At his press conference, Chair Powell said future interest rate decisions will depend on data and the effects of tightening are not fully felt yet. He mentioned that inflation still has a way to go cool to 2%, but noted improvements in the labour market. However, he highlighted that consumer spending growth has slowed compared to earlier this year. In the Q&A, Powell did not give a clear signal about future rate decisions, again framing it around incoming data, adding that the Fed might raise rates in September if the data supports it. And while he suggested a slower pace of rate increases, lifting them at consecutive meetings was still possible. Powell mentioned that stronger economic growth could lead to higher inflation, requiring a policy response. He discussed the possibility of rate cuts in the future if inflation comes down convincingly. He wants to see inflation decrease sustainably, and wages may play a role in bringing it down.

UK INFLATION (WED): Expectations are for Y/Y CPI to fall to 6.7% from 7.9% with the core Y/Y rate seen ticking lower to 6.8% from 6.9%. The prior release saw headline Y/Y CPI in June pullback to 7.9% from 8.7% (matching the forecast of the Bank's May MPR), with the metric pulled lower by petrol and diesel prices. There was also good news on an underlying basis with core inflation falling to 6.9% and services inflation declined to 7.2% from 7.4%. For the upcoming release, Investec says it is "relatively confident" that we will sign another large step lower in inflation due to falling energy prices amid the resetting of the OFGEM price cap; this alone should drag headline inflation lower by 0.7% on the month. That said, Investec cautions that the core metric likely "remained sticky" as potential downside from clothing and footwear prices was offset by pricing in other sectors such as restaurants and the wider services industry. Beyond next week's release the desk is of the view that "there is limited scope for extra disinflation from services in the near term, so look to goods price inflation to account for the bulk of the easing momentum". From a policy perspective, the BoE is expected to hike rates once again in September with a 25bps increase priced at 68%; a sticky inflation report could see this move closer to 100%.

NORGES BANK ANNOUNCEMENT (THU): Expected to stick with the implied guidance from the June MPR and hike by 25bp to 4.00%. A move that is justified by the Norges Bank's preferred inflation measure remaining elevated but printing roughly in-line with their forecast for July. Additionally, the NOK has seen marked appreciation since June, though is now off best, which should serve to push down inflation impulses in the months ahead. Nonetheless, markets continue to ascribe around a 20% chance to a 50bp hike. Note, the decision will be published as usual at 09:00BST but the accompanying press conference takes place as part of an event in Arendal which features questions from both the public and press. As a reminder, this is an interim meeting and as such we do not receive formal inflation or repo path forecasts, which in June implied around an 80% chance of another 25bp hike in September, assuming that magnitude is delivered in August.

AUSTRALIAN JOBS REPORT (THU): The Labour Force report is expected to show 21.5k jobs added in July (prev. 32.6 k), with the Unemployment and Participation rates seen steady at 3.5% and 66.8% respectively. "We suspect there is scope for another robust read in July", say analysts at Westpac, citing no shift in the tone of labour demand data, alongside work-hour restrictions being reinstated for international students, although there is uncertainty on how this will be presented in the data. To err on the side of caution, the desk forecasts a 25k rise in employment but warns of upside risks, whilst expecting the participation rate and unemployment rate to be in line with market forecasts.

JAPANESE CPI (FRI): National Core CPI is expected to have cooled to 3.1% in July from 3.3% in June, with no forecasts at the time of writing for the headline CPI Y/Y and M/M at the time of writing. June's metrics saw an uptick in the Core Y/Y to 3.3% from 3.2%, albeit matching expectations. Since then, the BoJ conducted a back-door tweak to YCC for flexibility, whilst upping its near-term inflation forecasts – with the Fiscal 2023 median forecast raised to 2.5% from 1.8%, above the central bank's target. Governor Ueda suggested there is still a distance to achieve the 2% inflation target, but the drastic changes to the FY23 price outlook suggest the outlook in April was possibly underestimated. That being said, the forecasts saw a downgrade to the Fiscal 2024 median forecast, which was cut to 1.9% from 2.0%. Late July, markets also saw the release of the Tokyo July CPI which is seen as a proxy for the mainland metrics – Tokyo CPI topped expectations across the board with an alarming 4.0% printed for the "super core" figure (vs exp. 3.7%, prev. 3.8%).

UK RETAIL SALES (FRI): A consensus is yet to be provided for the release, however, in terms of recent retail indicators, BRC retail sales rose 1.8% Y/Y in July with the accompanying release noting "The slowing pace of retail price inflation fed through into slower sales this July. Spend was further depressed by the damp weather, which did no favours to sales of clothing, and other seasonal goods." BRC adds "online retail was particularly hard hit as the long-term trend back to in-store spending continued, leading to the lowest online penetration rate since the pandemic began". The

Barclaycard Consumer spending report revealed “retail spending grew 2.9% in July 2023, compared to year-on-year growth of 6.0% seen in June 2023. The wet July weather had an impact on a few categories, with spend growth in Sports & Outdoors reducing by -1.5% in July 2023”.